SUMMIT FINANCIAL

2026 Midterms: What the Election Means for Investors

Quick Take:

- The 2026 midterm elections shifted control of both the House and Senate to Democrats, creating divided government for the final two years of President Trump's term. Even so, the broader investment backdrop remains tied to economic growth, corporate earnings, inflation, and interest rates.
- Divided government may make major legislation more difficult to pass, potentially limiting significant changes to tax and spending policy. Policy uncertainty, however, is unlikely to disappear.
- Data centers emerged as a notable midterm issue. Greater scrutiny may slow new development, but it does not change the long-term demand for computing capacity driven by cloud computing and AI.
- In this environment, the quality of assets and contracts may matter more than simply participating in the sector, as existing sites with secured power, permits, and strong customers could become increasingly valuable.
- Healthcare and fiscal policy are likely to return to the spotlight, with elevated federal deficits and the 2027 debt ceiling among the issues to monitor.
- Markets have historically performed well following midterm elections, regardless of which party wins. For long-term investors, the focus should remain on diversification, discipline, and fundamentals rather than political headlines.

Navigating a New Balance of Power

The 2026 midterm elections returned Democrats to control of both the House and Senate, setting the stage for divided government during the final two years of President Trump's term. While the balance of power in Washington has changed, the factors that ultimately drive markets remain largely the same: economic growth, corporate earnings, inflation, and interest rates.

Divided government can make major legislation more difficult to pass, which may limit significant changes to tax and spending policy. That said, policy uncertainty is unlikely to disappear. Government funding, the federal debt ceiling, trade, healthcare, and AI infrastructure are among the issues likely to receive greater attention over the next year.

For investors, the key is separating political headlines from the policies that materially affect the economy and markets.

AI and Data Centers: Greater Scrutiny, Not the End of the Growth Story

Data centers emerged as a notable issue during the midterms. Local concerns have centered on electricity costs, grid reliability, water usage, zoning, tax incentives, and the infrastructure costs associated with new development.

As a result, the environment for new projects could become more challenging. Permitting may take longer, access to power and water could become more difficult, and community opposition may increase development costs or delay construction.

However, greater scrutiny does not change the long-term need for digital infrastructure. Cloud computing and AI adoption continue to drive demand for computing capacity.

Instead, the investment landscape may become more selective. As new supply becomes harder to develop, existing sites with the following characteristics could be better-positioned:

- Secured power and necessary permits
- Long-term contracts with strong customers
- Experienced operators

This distinction is important for diversified infrastructure investors, as exposure can vary significantly by strategy. Some managers maintain limited data center allocations, while others avoid direct exposure altogether. Where exposure does exist, the quality of the assets and contracts may matter more than simply participating in the sector.

Healthcare and Fiscal Policy

Healthcare could also return to the policy spotlight. Democrats may seek changes related to the Affordable Care Act, Medicaid, prescription drug costs, and previously enacted spending reductions. The impact is likely to vary across insurers, pharmaceutical companies, and healthcare providers.

Divided government may also reduce the likelihood of major new tax cuts or spending packages. However, it does not resolve the longer-term fiscal challenge. Federal deficits remain elevated, making government borrowing and the 2027 debt ceiling important issues to monitor.

What Does History Tell Us?

Markets have historically performed well following midterm elections, regardless of which party wins.

Different studies use different periods and methodologies, but the broader pattern is similar. Schwab found that the S&P 500 was positive six months after every midterm election since 1974, with an average return of 12.4%. Capital Group reported an average one-year return of 15.1% following midterm elections since 1950.

Past performance does not guarantee future results. Still, history offers an important reminder: election outcomes alone have rarely determined the market's long-term direction.

Closing Thought

With the election behind us, attention is likely to return to economic and corporate fundamentals. Political developments can create volatility and produce meaningful winners and losers across industries. Strong long-term demand can coexist with greater regulatory, development, and execution risk, and the changing environment for data centers is a good example.

That reinforces the importance of diversification and selectivity rather than reacting broadly to political headlines.

For long-term investors, the takeaway remains straightforward: stay diversified, remain disciplined, and focus on fundamentals. Periods of political uncertainty may change where opportunities emerge, but they do not necessarily require a change in long-term investment strategy.

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